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Viewing cable 05ATHENS3272, GOG SCRAMBLES TO AVOID BLACK EYE IN ELECTRICITY

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Understanding cables
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- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
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Discussing cables
If you find meaningful or important information in a cable, please link directly to its unique reference number. Linking to a specific paragraph in the body of a cable is also possible by copying the appropriate link (to be found at theparagraph symbol). Please mark messages for social networking services like Twitter with the hash tags **#cablegate** and a hash containing the reference ID e.g. **#05ATHENS3272**.

Reference ID	Created	Released	Classification	Origin
05ATHENS3272	2005-12-30 14:54	2011-08-30 01:44	CONFIDENTIAL	Embassy Athens

Appears in these articles:
www.tanea.gr

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This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 03 ATHENS 003272

SIPDIS

E.O. 12958: DECL: 12/28/2015
TAGS: ECON GR ENRG
SUBJECT: GOG SCRAMBLES TO AVOID BLACK EYE IN ELECTRICITY
LIBERALIZATION


Classified By: Charge Countryman for reasons 1.4 (b) and (d)

¶1.  (U) Summary.  On December 24th, Thessaloniki Energy
(TESA) began operation of a 390 MW gas-fired power plant,
becoming the first power company in Greece to compete with
the state-controlled Public Power Corporation (DEH) for the
sale of electricity.  Five days later, TESA has failed to
make a single sale into the grid, and has been forced to idle
the plant.  Scrambling quickly, the GoG "corrected" the
problem by ensuring that TESA will receive lower natural gas
prices for at least the next six months in order to compete
with DEH's prices, as well as setting in motion increased
scrutiny of DEH's newly aggressive pricing structure.  It
appears that the Prime Minister's January 24th presentation
of the new market-controlled, liberalized Greek electricity
sector at the TESA power plant inauguration can carry on as
scheduled.

¶2.  (C) This episode, and the resulting turn to GoG
intervention for a resolution, provides an illuminating
example of the complicated and incestuous Greek power market.
Despite GoG assurances that the sector is market-controlled
and liberalized, the sad fact remains that every one of the
companies involved is cross-held by one another and/or
controlled by the GoG. This most recent embarrassing episode,
quickly addressed by Minister of Development Sioufas'
instructions to GoG- and Hellenic Petroleum- (ELPE)
controlled Public Gas Corporation (DEPA) to lower its sale
price of gas to TESA, highlights that despite hopes to the
contrary, the electricity sector in Greece is still a
market-free area rather than a free-market area.  End Summary.

The Cast
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¶3.  (U) One fundamental problem is that the Greek energy
market is characterized by an extraordinary degree of
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governmental ownership and an opaque web of cross-holdings. To wit, the major player in the Greek power market is DEH, which controls 98.5 percent of the electricity market in Greece, and produces 96 percent of Greece's annual electricity needs. Nominally privatized in 2001, DEH is still 51 percent state held, the remainder publicly traded and held by public and institutional investors. DEH also controls all electricity transmission and distribution in Greece.

¶4. (U) The second player in the Greek energy sector is Hellenic Petroleum (ELPE), which has been partially privatized from 1998 through 2003. Currently the GoG holds (directly and through GoG-managed finance companies) 43.7 percent of ELPE, with Pan-European Oil and Industry Holdings S.A. holding 24.9 percent, and 31.3 percent held by public and institutional investors.

¶5. (U) The final major player is Public Gas Corporation (DEPA), which was established as a wholly-owned subsidiary of ELPE in 1988, and hived off in 1998 ahead of ELPE's partial privatization. Today, ELPE controls 35 percent of DEPA, with the GoG holding the remaining 65 percent of shares. DEH holds rights to purchase 30 percent of the GoG's shares in DEPA, however, and the remaining 35 percent were to be sold to Spain's Gas Natural in 2004 by the PASOK government, a deal which has been placed on hold by the current New Democracy government while it "restructures the market."

The Conflict

¶6. (U) Thessaloniki Energy (TESA), established in 2003, is the first licensed competitor to DEH in Greece, and is 100 percent owned by ELPE. It came on line with its single 390 MW gas-fired power plant on December 24th of this year. Not surprisingly, given ELPE's interest in both firms, TESA receives its natural gas under a contract with DEPA. Under the prices stipulated in that contract, TESA's break-even price for electricity was 60 euros per MWh. Oddly, on no day since TESA's opening has DEH's price of electricity risen above 55 euros per MWh, a price 10 percent lower than its average price of 2 years ago, and over 50 percent lower than the EU15 average.

¶7. (SBU) DEH's downward flexibility on price is the direct result of another market-free reality; it holds exclusive rights to 63 percent of Greece's proven lignite reserves at extraction rates that verge on negligible as a legacy of its state-owned days. This low-cost lignite, with 40 years of proven reserves, provides the majority of DEH's energy needs. Additionally, DEH has exclusive use of the country's hydroelectric dams, largely constructed in the 1970s and 80s. The result is a legacy subsidy on inputs that makes market-based competition by any other provider impossible to imagine. Although the GoG has ostensibly established pricing regulations to compensate for DEH's lignite advantage, executives in the Greek energy market remain steadfast in their belief that free inputs give DEH something of an unfair market advantage.

From Mess to "Market" in One Easy Step

¶8. (U) Minister of Development Sioufas met with Prime Minister Karamanlis on December 27th, at the conclusion of which he told reporters that he would be meeting with DEPA, ELPE, and DEH officials on the 28th to discuss the situation, which he guaranteed "will return to normal soon." DEH leaked to the press that it had no intention of changing its aggressive pricing and was prepared to fight Sioufas' suggestion that it do so. Unsurprisingly, on the 29th it was announced that DEPA was offering TESA a six-month reduced-rate contract for natural gas (although the actual price was not announced), thereby allowing TESA to compete with DEH. There is also talk that DEH may be required to provide the energy regulatory agency (RAE) with daily data and explanations of its pricing points.

¶9. (SBU) It might be expected that these shenanigans have reduced ELPE's interest in the market, but that does not appear to be the case. Quite to the contrary, on the 28th, ELPE announced its application for a 30-year license for an additional 390 MW combined-cycle gas-fired plant to be constructed near Athens, which it claims will help its Thessaloniki plant survive through increased economy of scale on its supply side. Not to be outdone, DEH, currently barred from building any new thermal energy plants under the GoG liberalization plan, has stepped up its lobbying to have this restriction removed so as to ensure "security of supply."

Comment

¶10. (SBU) Comment: Critics of the slow pace of energy liberalization have been quick to point to TESA's failure to break into the market as an example of the "in name only" privatization that has plagued this sector. The GoG's quick response to pressure DEPA to renegotiate its contract rate

with TESA, and for DEH to "reconsider" its aggressive pricing structure, reinforce this image. Prime Minister Karamanlis is scheduled to preside over the inauguration of TESA's plant on January 24th, an event which would have clearly lost its luster if the plant had been sitting idle. Additionally, the GoG is scheduled to announce three new tenders for private power plants totaling 900 MW in the coming months. If TESA is the example by which the value of these new tenders is judged, there is likely to be little interest.

¶11. (C) This situation is an illuminating example of the true state of domestic energy liberalization in Greece. Nearly nine years after EU-mandated liberalization, there is still no real (i.e. government-free) competition for any of the Greek para-statal energy providers. Worse yet, the GoG is apparently unable to even orchestrate a decent stage-show of competition among the companies in which it holds majority interest. In fact, the players all seem to understand that the road to profit passes through their various relationships with the state. ELPE isn't looking to start another 390 MW power-plant near Athens because of the overwhelming success of its Thessaloniki plant; it knows that the GoG desperately needs to show progress on liberalization and that as a result, as the only "competition" in town, ELPE's power plants won't be allowed to fail. The events surrounding TESA's stand-up would seem to indicate this analysis is correct.

¶12. (C) The saddest part of this episode is that real problems exist which need to be addressed. The power sector is in dire need of modern investment and upgrade as illustrated by the major power outage in July 2004 which panicked everyone involved in the Olympic Games. This problem is exacerbated by the fact that power demand in Greece is growing as Greek incomes and living standards rise, and new production and transmission systems have not kept up with the demand. But it's not just the large companies, but smaller investors as well(in areas such as wind-farming) that are finding the market impenetrable. Although the GoG has repeatedly proclaimed its interest in bringing foreign investment to this sector, as well as becoming a regional center for energy transmission, its actions are speaking louder than words. In short, out of fear of offending the many special interests involved, the GoG is simply unwilling -- perhaps politically unable -- to let go and let the market take over. In the fine tradition of pulling off the band-aid one hair at a time, the GoG now finds itself prolonging the pain of transformation or even jeopardizing it. End Comment.
COUNTRYMAN